Covid-19: European telecom credit outlook stable as lockdowns test resilience of operators' networks

Europe's telecom operators face relatively minor short-term economic and financial consequences from the Covid-19 pandemic despite dramatic shifts in traffic volumes as a result of lockdowns. But a longer crisis would pose greater risks for the sector.

The spread of the Covid-19 coronavirus has led to a significant increase in the domestic use of IT infrastructure and services – PCs, phones, mobiles, Internet access, e-mails, VPN connections among others – as adults and children have had to work and study from home. For example, the French government estimates 8m out of 20m workers could shift to working from home. France also has a school and university population of around 14.6m. The country has around 29.8m broadband connections, of which 11.4m are high-speed fibre or equivalent.

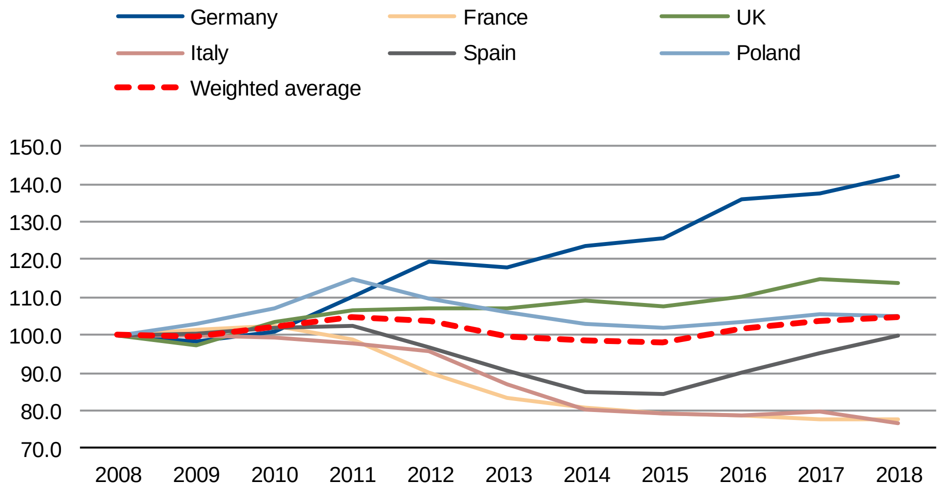
The broader economic context for the telecom sector has also changed drastically, with Europe facing a deep recession this year despite massive fiscal and monetary stimulus to cushion industry, business and households from the economic shock of the pandemic.

Traffic has significantly shifted from corporate networks to residential networks with some growth in overall volume as students connect with teachers.

However, the danger of network saturation, outside of more remote rural areas, is limited. The current more intense use of residential broadband and telephone networks is taking place during the day when the network is almost empty in normal circumstances rather than in the evening when usage is more intense after school and work.

Telecom regulators, at national and European (BEREC) level, are also following closely the state of the networks to minimise potential disruption. In Spain, the government suspended number portability to limit the number of people that might be tempted to get a new line or extra phone.

Figure 1: Telecom services household spending (2008=100)



Source: Scope estimates, based on OECD data.

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If the increase in traffic poses few risks for operators, it also offers few benefits in terms of extra income.

This increase in traffic will not lead to any significant increase in revenues for telecom operators as most consumer offers for consumers products are based on flat-rate fees for broadband, mobile data traffic as long as consumption caps are not reached.

In financial terms, the current lockdowns may even reduce cash outflows for some telecom operators if governments decide to delay auctions of 5G spectrum, scheduled in many European countries for 2020, until next year. In Spain, the government has announced that 700 MHz band, part of the expected 5G auctions, will not be freed by TV channels, implying a delay of 5G-band allocation.

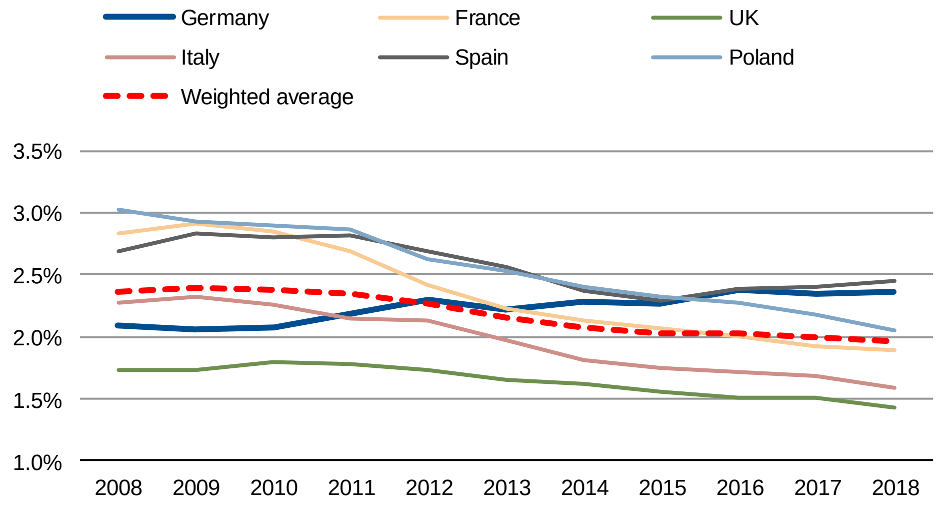
Most of the large European telecom operators have significant liquidity with expected free operating cash flow, cash and undrawn credit lines representing typically at least 2X their short-term debt.

The real question is more on the longevity and depth of this crisis. A deep, prolonged recession in Europe could put some, if limited, pressure on telecom operators' revenues.

We do not foresee any real change happening on the residential markets, as these services are considered basic goods. A very significant part of revenues are stable as operators have increased the fixed part in their monthly bills – better reflecting their cost structures – while telecom services represent a small part of overall household spending in Europe, averaging 2.0% in the six largest countries in Europe, down from around 2.4% 10 years ago.

In the case of a severe and durable crisis, revenue from corporate customers would be in greater danger of declining, particularly among small- and medium-sized enterprises. The number of fixed lines fell 5% in 2009 in Spain in the corporate market while the number of residential lines continued to grow (+0.5%). In Europe, all corporates (large groups, SMEs, self-employed) represent in total around 30% of industry revenues.

Figure 2: Telecom services as a share of household spending (%)



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